Six possible pitfalls in your expansion plan

The Teagasc Dairy Expansion Service has developed over 120 business plans for new entrants and expanding dairy farms. Dairy specialist Patrick Gowing identifies some key areas to consider.

No 1: Inadequate funds

Any expansion phase can be very hard on cashflow and it’s a vulnerable time for the business. Take a suckler or dairy herd moving from 50 to 100 cows. There will be an increased replacement rate on farm to allow the herd to build numbers and there may also be a lower culled rate.

Invariably, there will be capital investment required to grow more grass for the increased stock number. Additional housing may be needed. There will be a time lag before the farm returns to full production after the expansion and this needs to be considered in a business plan.

An expanding dairy herd will have the cost of carrying additional heifers and a potential lower output per cow due to it being a young herd. A business plan which doesn’t take into account a short-term reduction in performance during the expansion phase is unrealistic.

No 2: Getting from here to there

Farmers considering converting their farm to dairying should start the planning phase at least two years prior to the first cow milking. There are a lot of considerations in developing both your physical and financial farm plan.

Normally when we review plans, there is a good physical plan on how to develop the farm for conversion. So the farmer will know when and where reseeding has to take place, for example, or the positioning of the new parlour.

However, when we review the business plan, it often commences in the year that the parlour starts and does not show the likely cashflow on the farm in the conversion years.

This ignores the farm operating costs in the years prior to the cows actually starting to milk. This usually means the farmer over-values the stock he has on hand. Some of the value of the herd will be required to pay on-going bills. So a business plan should map the conversion phase right through the early years of the dairy enterprise.

No 3: Planning small

Most farmers I have met have a little-known disease called last shed syndrome. This disease can affect the judgement of farmers when deciding on the design and location of their yards. The normal response from farmers suffering from the syndrome is ‘we will put it there because it’s the last shed I will build’. In a year or two, another last shed will be planned and the first last shed is now in the way!

Some farmers I have met have built over 20 last sheds.

When planning your farmyard, consider how the yard may develop over time. Make sure your new development will have scope for future expansion if the opportunity arises.

Also, anticipate the cow flow of your yard with a larger herd size. Cow flow and good design are critically important in large herds. The same future potential needs to be considered when developing your grazing infrastructure.

Good planning rarely costs extra initial capital, but it can set your farm up to avail of new opportunities if you so desire.

No 4: Capital budget

An accurate capital budget is a core component of a farm business plan. While the large ticket items like the parlour and bulk tank are easily calculated, smaller items can be forgotten or overlooked.

The capital budget should be developed to reflect all investment required...
Break down the capital budget into a number of headings. The headings we use are: growing grass, accessing grass, milking premises, housing and other.

Also create a timeline of when you will need to invest the capital. Often the small items can increase the cost of the budget substantially, like three-phase electricity connection or a new well. Build in a good contingency fund. Typically, we use 10% to 15% of the overall capital budget. Most capital projects overrun the budget. But stick to your capital budget as best you can. The add-ons during construction can easily drive up the capital required.

No 5: Over-budgeting

Targets and goals for your farm are an essential management tool, but they should be realistic. Plans which are based on a high and consistent milk price have trouble built into them. Be realistic in your business plan regarding the potential kilogrammes of milk solids output of your herd. Increasing the milk solids sold per cow will make the plan appear viable, but can it realistically be achieved?

Another key step is to do a sensitivity analysis of your plan. After you have expanded and finished developing your business, it should be in position to cope with a low milk price year. If not, your plan was poor.

The decision to expand your farm and invest in your business should leave your farm in a stronger position after the expansion phase, not a more vulnerable position.

No 6: Drawings

One of the largest costs on any farm is the amount of family drawings. This is an essential piece of information in any business plan. Most farmers can tell you how many tonnes of meal/cow they fed, but will struggle to know what drawings they take off the farm.

An accurate drawings figure is essential. Your accounts and accountant can help you establish the true figure. Finally the plan should be discussed with your accountant for any potential tax implications of what you are planning to do. An unexpected tax bill can also put financial strain on the business.

In conclusion, ambition for your business and family is a very good thing. An optimistic, but realistic, approach in your business planning will help you turn ambition into sustained success.